

Author: Chan, et al. Analyst: Rachel Coco Bill Number: AB 1815
 Related Bills: See Legislative History Telephone: 845-4328 Original Analysis Date: January 15, 2004
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: PIT Rates/Increase Maximum Rates To 10% And 11% And Alternative Minimum Tax Rate To 8.5%

- ☒ REVENUE ESTIMATE CHANGED.
 _____ FURTHER CONCERNS IDENTIFIED.
 _____ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED
☒ January 15, 2004, STILL APPLIES.
☒ OTHER – See comments below.

SUMMARY OF BILL

This bill would increase the top personal income tax (PIT) rate from 9.3% to 10% and 11% and would increase the alternative minimum tax (AMT) rate from 7% to 8.5%.

SUMMARY OF REVISION

The tax bracket amounts and revenue estimate contained in the department's analysis of the bill as introduced January 15, 2004, have been revised.

FTB's tax model was recently updated to reflect the latest Department of Finance forecast. This update caused the preliminary tax brackets and revenue impact discussed in the department's analysis of the bill as introduced, January 15, 2004, to change.

A revised "This Bill" portion and "Revenue Impact" have been provided below to reflect the updated tax bracket amounts and revenue estimate.

The remainder of the department's analysis of the bill as introduced January 15, 2004, still applies.

THIS BILL

Bracket amounts as provided in the January 15, 2004, analysis:

PIT rate of 10% for:

- Single filers (including married filing separate) whose taxable income is over \$142,184;
- Joint filers whose taxable income is over \$284,368; and
- Head of household filers whose taxable income is over \$193,534.

Board Position:

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Legislative Director

Date

Brian Putler

2/20/04

PIT rate of 11% for:

- Single filers (including married filing separate) whose taxable income is over \$284,368;
- Joint filers whose taxable income is over \$568,737; and
- Head of household filers whose taxable income is over \$387,068.

Revised bracket amounts:

This bill would establish a PIT rate of 10% for:

- Single filers (including married filing separate) whose taxable income is over \$142,307;
- Joint filers whose taxable income is over \$284,615; and
- Head of household filers whose taxable income is over \$193,702.

This bill also would establish a PIT rate of 11% for:

- Single filers (including married filing separate) whose taxable income is over \$284,615;
- Joint filers whose taxable income is over \$569,230; and
- Head of household filers whose taxable income is over \$387,404.

Note: the bracket amounts above were calculated by applying the annual consumer price index (CPI) growth rate to the 1991 tax brackets.

For example:

Preliminary 2005 Tax Brackets And Rates For Single Filers				2005 Tax Brackets And Rates For Single Filers As Proposed			
\$0	-	\$6,251	1.0%	\$0	-	\$6,251	1.0%
\$6,251	-	\$14,818	2.0%	\$6,251	-	\$14,818	2.0%
\$14,818	-	\$23,387	4.0%	\$14,818	-	\$23,387	4.0%
\$23,387	-	\$32,466	6.0%	\$23,387	-	\$32,466	6.0%
\$32,466	-	\$41,030	8.0%	\$32,466	-	\$41,030	8.0%
\$41,030	-	and over	9.3%	\$41,030	-	142,307	9.3%
				\$142,307	-	\$284,615	10%
				\$284,615	-	And over	11%

Note: The 2005 tax bracket amounts are not known at this time due to the annual indexing adjustment. To estimate the 2005 bracket amounts, a CPI growth rate of 2.1% was applied to the 2003 bracket amounts to get the 2004 bracket amounts. A CPI growth rate of 2.7% was then applied to the 2004 brackets in order to approximate the 2005 brackets.

This bill also provides that the 10% and 11% brackets would be adjusted annually for inflation.

In addition, this bill would increase the AMT rate to 8.5% for individual taxpayers.

This bill specifies that the increased tax rates and bracket amounts of 10% and 11% and the increased AMT rate of 8.5% would apply to taxable years beginning on or after January 1, 2005, and before January 1, 2010. After that date, the top tax bracket would revert to the previous amount of 9.3% and the AMT rate would revert back to 7%.

ECONOMIC IMPACT

Revenue Estimate

Original estimate:

Revenue Impact (\$ Billions)				
Fiscal Year	2004-05	2005-06	2006-07	2007-08
Revenue Gain	+\$0.6	+\$3.0	+\$2.6	+\$2.7

Revised estimate based on the recently revised tax model:

Revenue Impact (\$ Billions)				
Fiscal Year	2004-05	2005-06	2006-07	2007-08
Revenue Gain	+\$0.6	+\$2.9	+\$2.7	+\$2.8

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The first fiscal year, 2004/05, includes a portion of the 2005 tax year impact, since it is assumed that revised employer withholding tables reflecting the new rates would be issued in early 2005.

The tax bracket amounts proposed by this bill were calculated by applying the annual CPI growth rate to the 1991 tax brackets. The projected 2005 tax brackets for the 10% tax rate begin at \$142,307 for single, \$284,615 for joint, and \$193,702 for head of household. The projected 2005 tax brackets for the 11% tax rate would begin at \$284,615 for single, \$569,230 for joint, and \$387,404 for head of household.

Approximately 360,000 returns would be subject to the higher tax rates in the 2005 taxable year, down from 405,000 as stated in the January 15, 2004, analysis.

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